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CRC - CENTRO RICERCHE SULLA COOPERAZIONE  
E SUL NONPROFIT

WORKING PAPER N. 6

# Foundation's Governance for Strategic Philanthropy

Giacomo Boesso - Fabrizio Cerbioni -  
Andrea Menini - Antonio Parbonetti



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# **Foundations' Governance for Strategic Philanthropy**

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## **Abstract**

*This paper examines whether effective governance plays a major role in driving foundations' strategy when it comes to making the choice between reactive or proactive philanthropy models. More specifically, we investigate the relationships between philanthropic strategy (expressive, receptive, proactive and collaborative) and [a] board capital (competences and networks), [b] board processes (planning, control, evaluation, etc.), and [c] chairman power (entrenchment and tenure).*

**JEL codes:** M14 G30 L31

**Keywords:** board capital, board processes, CEO power, corporate governance, foundation, foundation of banking origins, philanthropic strategy

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The “Workshop on foundations” is a joint effort of the “Dipartimento di Scienze economico-sociali e matematico-statistiche of the University of Torino” and the “Centro di Ricerche sulla Cooperazione e sul Nonprofit of the Catholic University of Milano”. The “Workshop on foundations” grants research fellowships through the “International Research in Philanthropy Awards (IRPAs)”, supported in 2011 by the Centro di Documentazione sulle Fondazioni of Torino.

## **1. *Introduction***

Grant-making foundation leaders are becoming increasingly concerned with the task of understanding the primary responsibility of their institutions in financing the growing nonprofit sectors. Indeed, scholars, politicians and practitioners expect foundations to play the unique role of social merchant banks that are able to foster the positive impact of non-profit organizations on the societies, people and issues they affect. In order to achieve such an objective, one of the nonprofit research mainstream (CEP, 1999; Porter and Kramer, 1999) argues for effective nonprofit governance, and this paper extends this view by hypothesizing that prosperous foundations should improve board capital, implement sound governance processes and enhance chairman power.

The main objective of this paper is to examine the role effective governance plays in shaping different foundations' philanthropic models. More specifically, we investigate the relationships between governance mechanisms, such as [a] board capital (director's competences and networks), [b] main board processes (planning and control mechanisms and systems, information collection and usage, members evaluation and timing), [c] chairman power (entrenchment and tenure) and philanthropic strategy (expressive, receptive, proactive and collaborative).

To test our hypothesis, we empirically investigate the Italian Foundations of Banking Origin (FOB) through the use of a survey. Italian bank foundations represent a unique research environment because of their peculiar history. The 88 FOBs were created almost 20 years ago, when the Italian legislature decided to progressively privatize the large public banking sector and, at the same time, to divide banking activity from philanthropic action. Until then, in fact, many Italian public banks (Casse di Risparmio and Banche del Monte) performed both roles, thus with a visible lack of philanthropic specialization. Although in the beginning, the main role of FOBs was to be the major private shareholder of the privatized “Casse,” starting in 1998, the law obliged them to progressively sell the majority of their shares and to diversify their portfolios. At present time, FOBs do not have any operative role in the banks they own (besides voting in the annual meetings), and their institutional activity consists of allocating the financial profits derived from their portfolios in social projects. Despite their private nature, FOBs are still obliged to disclose their most important financial decisions to the Ministry of Finance, which could oppose its veto.

In 2009, FOBs were managing (directly or through external experts) financial portfolios for over 49.6 billion Euros and generating profits of almost 2.5 billion. These large numbers support the relevance of the paper, as FOBs’ expenditures of almost 1.4 billion Euros are the most important philanthropic players in the country. Moreover,

FOBs' peculiar "genesis" (philanthropy by decree) provides a further explanation for studying FOBs' governance: the absence of strong founding bodies (either a family, a company or other individuals as generally happens in philanthropic foundations) turns the focus to the governance process as the crucial driver for effective philanthropy.

As companies coming from the public sector, the governance of these private institutions is particularly complex and is structured around two committees (dual governance). Each FOB presents a large strategic committee with a planning and control role, "Organo di Indirizzo" (OdI) – whose members are very often nominated by Territorial Public Entities (e.g., counties, city halls, local public foundations, etc.) and only sometimes by the funders' assembly – as well as a narrowed board with operative powers, "Organo di Amministrazione" (OdA) – whose members are generally nominated by the OdI. In addition to this dual system, the president (chairman) of the board often plays a major role in foundations, partially compensating for the absence of strong founding leaders and acting as the CEO. Accordingly, the institutional activity of the board (OdA), centered on the screening and financing of philanthropic projects, is monitored and influenced by the strategic committee (OdI), whose members are often tempted to be politically driven even if, formally, they should act in the sole interest of the FOB without any institutional link to the local entities that nominate them. For these reasons, the investigation of governance in these institutions can contribute better



insight into the agency problem (the relationship between local entities' interest, the chair role and the FOB strategy) as well as the stakeholder problem (the relationship between society's needs and the FOBs' strategy).

Fifty-one FOBs replied to our survey, which investigates the relationship between the governance mechanism and philanthropic strategy. With regard for philanthropic strategy, we group FOB according to two elements; first, the social projects they prefer to fund (from now on, *project funding priorities*) and, second, their mix among three major project development activities (planning, or “ex-ante”; financing, or “in-itinere”; and monitoring, or “ex-post”). According to our literature review, we assume that a foundation adopts a “collaborative” philanthropy model whenever it gives priority to complex but autonomous projects (such as investing in a social start-up as a social venture capitalist) and homogenously controls project development in all phases (ex-ante, in-progress and ex-post). On the contrary, when the foundation acts as an unspecialized grant-maker by unconditionally financing numerous third-party projects and its project development focuses on only one of the three phases (generally ex-ante, because of the large screening of many funding proposals), it is classified as an “expressive” philanthropy adopter.

For completeness, we define receptive and proactive philanthropy models as those in which foundations of banking origin unconditionally give funds controlling all activities (receptive) or finance com-

plex and autonomous projects not balancing the three groups of activities (proactive). In addition, to strengthen our analysis of the relationship between governance and philanthropy, we control for the economic performance of the territory in which the FOB operates, the foundation size and its economic-financial performance.

Our analysis shows that high board capital, long tenure and sound governance processes are positively associated with proactive and collaborative philanthropy models. This may imply that board profile heterogeneity, strong external networks, a chairman with extensive experience and good governance processes may increase foundations' ability to manage complex projects. Moreover, results show that, in wealthy provinces, foundations of banking origin are more likely to adopt a receptive or expressive philanthropy model because of the large financial need of the numerous nonprofit organizations. Results of this paper contribute to a better understanding of the governance of nonprofit organizations. As suggested by Ostrower and Stone (2010), "governance research has lacked adequate empirical data" and a theoretically grounded perspective (Ostrower and Stone, 2007). We try to fill this gap by analyzing the relationship between governance mechanisms and philanthropic strategy in Italian foundations of banking origin. The remainder of the paper is organized as follows: Section two generates our hypothesis building on the existing literature, section three presents the method, section four high-

lights the results, section five discusses the main empirical evidences and, lastly, a conclusion is provided.

## ***2. Theoretical Background and Testable Predictions***

This study merges two streams of literature, namely philanthropic strategy (our dependent variable) and corporate governance (our independent variable).

### **2.1. Philanthropic strategies**

Following the *Centre for Effective Philanthropy*'s surveys of the larger U.S. foundations (2000) and the Italian literature on the emerging social role of FOBs (Barbetta, 2001; Monteduro *et al.*, 2010) we seek to underline how foundations, in order to successfully achieve their social aims, can implement different philanthropic strategy based on different “project funding” priorities and several “project development” activities.

The “project funding” dimension is related to the priorities given to different types of financed projects:

- Seed capital for autonomous projects (for example a comparative analysis of different solutions for providing timely health assistance to aged people)
- Complex and participated projects (for example the development of local infrastructure)

- Own projects proposed by the FOBs themselves (for example the organization of exhibitions or events by directly selecting the best suppliers)
- Research grants (for example doctoral or post-doctoral positions)
- Unconditional grant-giving (for example financing external proposal such as work of art restorations).

While the first three typologies refer to operative foundations, which act as potential social merchant banks, the last two refer to grant-making foundations that are more interested in supporting only financially meritorious activities proposed by the so-called third sector players (associations, groups, nonprofit firms, etc.)

The “project development” dimension points out how foundations allocate their time for project development in three phases: [1] ex-ante; [2] in progress; and [3] ex-post. In particular, the ex-ante phase is strongly related to the selection of the projects, while the ex-post is dedicated to understanding the effectiveness of the financed project. It is important to highlight that foundations have different practices in allocating their time across these three phases. In particular, we identify two extreme practices: namely, specialized and homogenous control. The former refers to situations in which the foundation concentrates its activities in one of the three phases, while the latter is related to occasions when the foundation homogeneously patrols all phases.

Using these two dimensions, we can distinguish among the following four different philanthropic strategies: expressive, receptive, proactive and collaborative (See Figure 1).

**Figure 1. *Philanthropic strategies***

		<i>Unconditional</i>	<i>Autonomous</i>
		Project funding priorities	
<i>Homogenous</i>	Project development activities	Receptive	Collaborative
<i>Specialize</i>		Expressive	Proactive

Source: Our own integration of the existing literature

### 2.1.1 Expressive philanthropy

Expressive philanthropy represents a flow of funds largely on the basis of common purposes (vision or values) between trustee and donor. The fundamental and largely unconditional nature of that relationship (Raymond, 2010) implies that both the giver and recipient are free to seek measurable standards of usefulness or charitableness. Indeed, this funding approach is equal to giving a true gift; therefore, donors ask for little in return, except the knowledge that the trustee is engaged in implementing the project in order to achieve shared purposes. Raymond (2010) underlines the idea that the strategy behind expressive philanthropy is communication of shared values. Conse-

quently, this type of philanthropy strategy is related to focused control and a strong preference for funding as many trustees as possible. In particular, the expressive philanthropist assigns strong importance to the selection process and dedicates more time and resources in the ex-ante phase. The expressive philanthropist's priorities are for those projects that may contribute to the donor's purpose but mainly require trust in the recipient.

### 2.1.2 Receptive philanthropy

The essence of receptive philanthropy is an emphasis on listening and progressively refining a planning framework based on what one hears from those in the field (Lerner, 2005). As a consequence, a foundation practicing receptive philanthropy provides general guidelines in describing what it is looking for, since it is fundamentally seeking to respond to excellence in the proposals it receives. Therefore, donors who are interested in evidence expect the trustee to produce quantitative data in support of project implementation. This type of philanthropy strategy is associated with the implementation of a control system that homogenously provides information about all of the phases and a strong preference for funding as many trustees as possible. In particular, the receptive philanthropist requires information concerning all details; accordingly, more time and resources are devoted to the ex-ante phase. The receptive philanthropist's

priorities are dedicated to those projects that may contribute to the donor purpose of satisfying social stimuli.

### 2.1.3 Proactive philanthropy

Proactive philanthropy is defined as philanthropic activity that is designed to increase visibility or enhance the corporate image and is not in response to an event that pressures the company to respond. Proactive funding is developed naturally from the objective of being effective in systems change that is designed to remedy social problems (Lerner, 2005). Proactive philanthropy allows foundations to convene the whole system, to push for analyses that make sense for that system and to broker the resulting relationships or choose to fund intermediaries to broker such arrangements. In this regard, foundations can act as “institutional entrepreneurs,” simultaneously assessing system barriers and opportunities; framing them through sense-making processes; identifying innovations with the greatest systems impact; and helping to address policy, cultural and political issues (Westley and Antadze, 2010). Proactive philanthropy is essentially a transfer of power, because it essentially transforms nonprofit organizations into sub-contractors of a foundation strategy (Lerner, 2005).

Consequently, this type of philanthropy strategy is related to a focused control and a strong preference for a funding project that may be repeated in the future with high social impact. In particular, the

proactive philanthropist assigns strong importance to the selection process and dedicates more time and resources during the earliest stages. The proactive philanthropist's priorities are on those projects characterized by a high degree of autonomy and a potentially high social impact. Indeed, donors have become increasingly proactive and operative in their grant making, often telling local nonprofit communities exactly what kinds of proposals they are interested in receiving (Frumkin, 2010).

#### 2.1.4 Collaborative philanthropy

Limited resources, several worthy causes and high value congruency between donor and receiver have motivated foundations to increase their engagement with the receiver and start philanthropic collaborations (Frumkin, 2006). Although foundations can either collaborate with other foundations or support other organizations in financing their projects, these partnerships draw resources from several donors and organizations and direct them to a common cause or purpose. Even if collaborative funding can raise the amount of support available to the project, some issues of control and independence can arise mainly when small donors are involved (Robinson, 2001).

Consequently, this type of philanthropic strategy is related to implementing an effective control system and a strong preference for funding complex projects and autonomous projects that may be repeated in the future (such as seed social capital). In particular, a collabora-



tive philanthropist allocates time for controlling project improvement in all phases. A collaborative philanthropist's priorities focus on those projects with high social impact that require the participation of other organizations in order to be successfully completed.

In summary, expressive philanthropy is based on the identification of the projects aligned with donor values, receptive philanthropy is based on the development of the projects deriving from social requests, proactive philanthropy is based on finance the projects for solving social problems and collaborative philanthropy is based on supporting autonomous and complex projects. The results of this study demonstrate that these profiles are very different and, consequently, their project funding priorities and project development activities are diverse.

We claim that adoption of "proactive" or "collaborative" philanthropic strategy implies a more evolved strategic approach than the adoption of a "reactive" or "expressive" approach. The underlining idea is that screening, following (proactive approach) and evaluating projects and partners (collaborative), in the end, is more challenging than funding the majority of projects received (reactive) or issuing a public call for projects targeting a specific need (expressive). In other words, we consider more evolved those approaches that require more complex activities in term of human, managerial, operative and organizational resources. In these cases, indeed, resources may be allo-

cated and organized in order to select and develop a strategic project requiring high interaction with the external environment. For example, assessing which local infrastructure should be financed (proactive approach) may require that different people with diverse competences and capabilities (managerial, engineering and political) have to be involved and a lot different resource must be allocated even if it happened only in the selection phase. On the contrary, implement activities during a work of art restoration (receptive approach) may necessitate only idiosyncratic competences. Moreover the philanthropic activities can be sophisticated in terms of using managerial tools or in terms of screening the environment looking at new social needs. We consider that as the importance of the environmental scanning activity increases more proactive is the philanthropic strategic approach.

In addition, previous literature (Porter and Kramer, 1999) suggests that funding complex and autonomous projects may have a higher social impact than internally generated projects, research grants and unconditional grant-giving. Therefore, we consider proactive philanthropic strategy a more evolved strategic approach (but not necessarily a better one) than receptive philanthropic strategy. Along the same vein, collaborative philanthropic strategy can be considered the most evolved strategic approach (but, again, not the best one possible), and expressive philanthropic strategy is the least elaborated approach (but valuable and requested by many local communities).

## **2.2. Corporate governance and philanthropy strategy**

Effective governance is expected to inspire and lead organizations' strategy. Corger *et al.* (1998) argue that an effective board primarily needs knowledge and experience as well as processes that provide timely information and power. Since governance is a system of inter-related characteristics, all of which are relevant to ensure strategic effectiveness, this paper analyzes the impact of board capital, board process and chairman power on the philanthropic strategy.

### **2.2.1 Philanthropic Strategy and Board Capital**

Boards of directors perform two broad functions (Zahara and Pearce, 1989). First, directors support managers relating to the firm's business strategy (Pfeffer, 1972; Fama and Jensen, 1983; Rindova, 1999), and this is known as the strategic or advisory function of boards. Second, boards perform a monitoring function that consists of scrutinizing managerial performance (Jensen and Meckling, 1976; Fama, 1980).

Nonprofit literature has highlighted the applicability of these two key roles to NPOs, by identifying (Cornforth, 2003) six models of governance: compliance, partnership, co-optation, democratic, stakeholder and rubber-stamp. Such models underline the great variety of the roles assigned to the board. Overall, the nonprofit governance literature typically suggests that board roles and responsibilities comprise

basic legal and stewardship functions, such as overseeing financial management and ensuring that adequate resources are in place, upholding ethical standards, ensuring that the activities of the organization align with its mission, and monitoring the chief executive.

Such a great variety of roles assigned to boards would require heterogeneity in terms of directors' knowledge and business ties. Indeed, the role played by the board of directors as a whole is a mosaic of the individual roles of each director, regarding both the internal and external environments (see Branson, 2003; Gillan *et al.*, 2003; Hillman *et al.*, 2000; Lehn *et al.*, 2009; Zahra and Pearce, 1989). As a result of their professional experience, problem-solving skills and business exposure, there is great variability in the capabilities that each board member brings to the firm (Hillman *et al.* 2000). This diversity, combined with the expertise and experiences of the managers, produces a mosaic of decision-making structures and subsequent organizations' behavior.

To encompass the variety of contributions that board members bring to organizations, Hillman and Dalziel (2003) introduce in the strategic management literature the concept of board capital. In particular, they argued that the sum of the human (i.e., directors' ability and knowledge) and social capital (i.e., directors' ties with the external environment) of the board of directors (board capital) may proxy the board's ability to provide resources to the firm, thus affecting its strategy. In this vein, Haynes and Hillmann (2010) show the impor-

tance of board capital to foster strategic change. The authors show that higher board capital leads to a shift forward to a more challenging strategic approach.

Therefore, we state the following hypothesis:

*Hyp1: Higher board capital is positively associated with more evolved philanthropic strategies.*

### 2.2.2 Governance Processes

Previous literature (Rindova, 1999; Bradshaw *et al.*, 1992; Callen *et al.*, 2003) highlights the relevance of the board process in determining board effectiveness. Finkelstein and Mooney (2003) underline the importance of board actions, like recruiting the right people, putting meaningful structures in place, setting the stage for effective board meetings and steering board meetings to improve board process. For example, Vafeas (1999) shows that the number of meetings affects how boards operate and therefore their impact on performance. Rutherford and Buchholtz (2007) discuss the importance of information quality and proactive information seeking, and Golden and Zajac (2001) provide evidence that board attention to strategic issues and board evaluation are positively related to strategic change.

Green and Griesinger (1996) argue that activities carried out by the board affect its effectiveness also in nonprofit organizations. In addi-

tion, they find evidence that board members evaluation of the CEO, their participation in short- and long-term strategic planning, community interaction and board development to be the main board responsibilities right after their involvement in defining the mission and policies.

The underlying assumption of such research is that more elaborated activities and processes facilitate more challenging strategic approaches. Therefore, we hypothesize that the following:

*Hyp2: Sophisticated governance processes are positively associated with more evolved philanthropic strategies.*

### 2.2.3 Chairman Power

According to Conger *et al.* (1998), an effective board needs authority, and in each case of the presence or absence of a powerful leader (i.e. CEO), a company must achieve a balance of power between the board and chief executive. In nonprofit organizations, power is more appropriately manifested in the ability of the CEO or Chairman (if the CEO does not exist) to influence key decisions (Perrow, 1963; Middleton, 1987). Nevertheless, the effects of CEO power on the involvement of board in strategy are controversial in literature. On one side, Dalton and Kesner (1987) posit that a powerful CEO may influence the independent judgment of the board, thus driving decision on strategies (Westphal, 1998). In the same vein, Boyd (1994) shows

that CEO preferences may reduce board effectiveness. In addition, a more powerful CEO dampens strategic change (Haynes and Hillmann, 2010). On the contrary, Pearce and Zahra (1991) underline that, without a powerful CEO, directors engage in more discussion and debate that allows more diverse viewpoints to surface.

In nonprofit organizations, Siciliano (2008) points out that strong leader (CEO or Chairman) enhance directors' active role in strategy and leadership stability (Alexander *et al.*, 1993). This last contribute fits with the Italian FOB, in fact, their peculiar genesis (philanthropy by decree) caused a lack of strategy and leadership (Barbetta, 1999). This gap has often been filled by powerful chairman acting also as CEOs and frequently confirmed term after term. This solution, in many occasions, allows chairmen to carefully research and build a sound balance between huge financial resources and the mosaic of local and social needs.

Therefore, we state the following hypothesis:

*Hyp3: Chairman power is positively associated with more evolved philanthropic strategies.*

### **3. Methodology**

#### Sample

We collect governance and philanthropic strategy information by submitting a questionnaire to the 88 FOBs. Preliminary versions of

the questionnaire had been presented to their professional association (ACRI) and tested on a pilot sample of four foundations in order to standardize terms and information. The chairman and the general director/secretary could answer online for the final version of the questionnaire from January to June 2010. We address, if possible, specific parts of the questionnaire to one of the two respondents. In particular, with this research design, we allowed the chairman to delegate a more operative figure to answer practical questions not necessarily related to the chairman's duties and responsibilities.

After three recall initiatives, we achieve a 58% response rate, which is 51 out of 88 foundations.

### Empirical Model

Philanthropic strategy (PS) is measured according to the table presented in figure 1. We fit data models by using ordered logit estimation (all t statistics are corrected for heteroskedasticity). We use the following multivariate model to test our hypotheses.

$$PS = \alpha + \beta_1 \text{BoardCapital} + \beta_2 \text{BoardProcess} + \beta_3 \text{Chairman}_{\text{Entrenchment}} + \beta_4 \text{Chairman}_{\text{Tenure}} + \lambda_1 \text{Environment} + \varepsilon$$

Where:

*PS* = Philanthropic Strategy type based on control activity and priorities



*BoardCapital* = Board capital

*BoardProcesses* = Governance processes

*Chairman<sub>Entrenchment</sub>* = Chairman entrenchment

*Chairman<sub>Tenure</sub>* = Chairman tenure

*Enviroment* = Province wealthy

It is worth to notice the presence of potential endogeneity problems among governance factors and philanthropic strategy. In particular, FOB that has criteria for financing projects expressed in its statute may tend to enrich board capital, to improve governance processes, as well as to confirm the chairmen over time. There are three possible ways to address endogeneity: [1] using instrumental variables, [2] repeating observations through time and [3] changing proxy. The first way implies to find a genuinely exogenous variable (instrument) that is strongly correlated with the potentially endogenous regressor and ensure that the instrument only influences the dependant variable through the potentially endogenous independent variable. Unfortunately, not only in our context, it is far to be an easy task (Bartels, 1991). Second, panel data may mitigate endogeneity controlling for fix effects but our survey has been proposed for the first time in 2010. Third, the first pillar of our philanthropic strategy classification is based on the type of social projects FOB prefers to fund under the assumption that complex and autonomous projects have an higher social impact than research and unconditional grants. For that reason, an alternative approach for mitigate endogeneity might be

changing our dependent variable with social impact of the projects since governance factors may be more exogenous with respect to the performance of the final outcome. Nevertheless, the identification and the measurement of financed projects performance have to face that Italian FOBs had financed 25716 and 29421 projects with 1386 and 1677 million € in 2009 and 2008 respectively, or better, an average of 53916€ (56990€) per projects and an average of 292 (334) projects per FOB in 2009 (2008). In addition, while the 88 FOBs allocate 2.1% of their resources in tiny projects (less than 5000€), small and large FOBs allocate 16.7% and 0.8% respectively. In contrast, 44.9% of funds is allocated to huge projects (more than 0,5 million€) that correspond to the 0,0% and 52,8% for small and large FOBs respectively. Therefore, an alternative proxy may be prohibitive to be measured due to the large amount and the heterogeneity of projects.

#### Dependent variable

Foundations of banking origin can implement different philanthropic strategy based on the above-discussed two dimensions: project funding priorities and several project development activities.

For the first dimension, we use the priorities given to different types of projects. In particular, we ask foundations to rank their preferences in financing five types of projects. In order to rank from the less challenging priority to the most challenging priority, we assign

the following scores to each type of projects: [5] Seed capital for autonomous projects, [4] Complex and participated projects, [3] Own projects proposed by the FOBs themselves, [2] Research grants, and [1] Unconditional grant giving. We normalize from 0 to 1 the following index for measure priorities (*Priorities*):

$$\begin{aligned}
 \text{Priorities} = & 5 * \text{Autonomous}_{\text{rank}} + 4 * \text{Complex}_{\text{rank}} + 3 * \text{Own}_{\text{rank}} \\
 & + 2 * \text{Research grant}_{\text{rank}} + 1 * \text{Unconditional}_{\text{rank}}
 \end{aligned}$$

The subscript rank goes from 5 (most important) to 1 (less important), indicating the priority assigned to each type of project. Splitting the sample in two using the median (0.350), we identify the subsample of foundations that prefer unconditional projects (0) or autonomous projects (1).

For the second dimension, we analyze foundations' answers on specific questions about the percentage of time that they dedicate to the three project development activities (planning, financing and monitoring), and we calculate a concentration index (*Control*):

$$\text{Control} = 1 - ( \text{ex-ante}^2 + \text{in progress}^2 + \text{ex-post}^2 )$$

In other words, control is equal to 1 when the foundation equally allocates its time among the three phases (ex-ante = 33%, in progress = 33%, ex-post = 33%). Splitting the sample in two using the median

(0.875), we identify the subsample of foundations that adopt a homogeneous control activity (1) or a specialized control activity (0). As previously described (see figure 1), using these two dimensions (below or above the median) we distinguish among four different philanthropic strategies: expressive, receptive, proactive and collaborative. We order from the less collaborative practice to the most collaborative practice: [0] expressive, [1] receptive, [2] proactive and [3] collaborative. Figure 2 shows the four clusters and their subsamples' size (N=51).

**Figure 2. *Philanthropic strategies. Subsample size is in parenthesis***

Full sample = 51 Foundations of banking origin		<i>Unconditional</i>	<i>Autonomous</i>
		Project funding priorities	
<i>Homogenous</i>	Project development activities	Receptive (11)	Collaborative (13)
<i>Specialize</i>		Expressive (13)	Proactive (14)

#### Research variables

We focus on three main aspects of corporate governance: [1] board capital, [2] governance process and [3] chairman power.

First, we measure board capital (*BoardCapital*) as the sum of two components: board profile and board size as proxy of the potential network. The “profile” component is the normalized (from 0 to 1) sum of competences in the board among the following: managerial,

financial, law, artistic, political, environmental and technical. The network component is the normalized (from 0 to 1) number of board members. Specifically, we subtract the minimum number of members (8) from the board size, and we divided the result by the difference between the maximum number of members (79) and the minimum.

Second, we measure governance process (*BoardProcess*) as the normalized (from 0 to 1) mean among several characteristics and practices related to corporate governance (as measured by the respondent of the survey on Likert scales). In particular, we consider [a] the level of satisfaction of the planning and control mechanisms, [b] the level of training activities reserved for new board members, [c] practices related to the collection of information, [d] the accuracy of information to board members, [e] the frequency of valuation of the boards, [f] the frequency of invitation of opinion leaders, [g] the frequency of meeting with applicants, [h] the frequency of in-depth examination sections, [i] the implementation of software for performance control reasons, [l] the involvement of external institutions and [m] the number of committee meetings.

Third, we measure chairman power through two different ways: *Chairman<sub>Entrenchment</sub>* and *Chairman<sub>Tenure</sub>*. The former (*Chairman<sub>Entrenchment</sub>*) is measured as the mean between a dummy variable that indicates the absence of a general manager and the degree of devolving power to the Chairman (5-point Likert scale from “always” to “nev-

er”). The latter ( $Chairman_{Tenure}$ ) is a dummy variable equal to 1 if the Chairman is in charge for more than one term.

### Control variables

We control the relationship between corporate governance features and philanthropic strategy for environmental aspects (*Environment*). One of the main objectives of FOB is to reallocate wealth within the territory from which the participated bank collects resources. Even if there are some banks that operate at national or international levels, FOBs are still greatly related to the environment in which they are located. In addition, Italy is composed of 110 very differentiated and heterogeneous provinces in terms of socio-economic development, demographic structure and occupational situation, tradition and dominating culture, historical evolution of management systems and mechanisms. As a consequence, we control for the province wealth, measured by the per capita gross domestic product in 2009 (*Environment*)<sup>1</sup>.

In addition, we test the robustness of our results controlling for foundation size (*Size*), measured by the natural logarithm of the equity, and the profitability (*Profitability*) of the foundation as the net income/equity ratio.

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<sup>1</sup> We also calculate the variation in GDP between 2008 and 2009, but results are less reliable due to the economic and financial crisis. Although some wealthy provinces recorded a very high decrease in GDP, they still remain among the top wealthiest provinces.

#### **4. Results**

##### Descriptive analysis

In Table 1 – panel A, descriptive statistics of the variables involved in the analysis are reported. Concerning our dependent variable, descriptive results show that Italian Foundations of banking origin implement heterogeneous control activities (*Control*) and have different priorities (*Priorities*). In particular, less than 50% of the foundations systematically homogeneously allocate time among the three phases (ex-ante, in progress and ex-post). As can be seen from Table 1, priorities among projects are also quite diverse.

In Table 1 – panel B, descriptive statistics for each philanthropic strategy are reported. It is worth notice that, on average, larger FOBs, in terms of equity and amount of distributed grants, mainly adopt proactive approaches. At the same time, an FOB that operates in a non-wealthy province and has poor financial performance seems to implement a more collaborative philanthropic approach in order to compensate for this lack of resources. Nevertheless, Kruskal-Wallis tests show that these differences among profiles are not statistically significant but for the wealth of the province.

Concerning foundation governance, results in Table 1 show an inverse U-shaped relationship between ranked approaches (expressive, receptive, proactive and collaborative) and governance variables. Kruskal-Wallis tests show statistically significant differences among groups only for board capital level.

## Tab 1 – Descriptive statistics

### PANEL A – Descriptive statistics for the entire sample of FOBs

variable	mean	sd	p10	p25	p50	p75	p90
<i>Control</i>	0.752	0.234	0.375	0.625	0.875	0.937	0.937
<i>Priorities</i>	0.397	0.225	0.150	0.200	0.350	0.550	0.750
<i>BoardCapital</i>	0.814	0.318	0.408	0.596	0.825	1.040	1.239
<i>BoardProcess</i>	0.358	0.093	0.229	0.292	0.360	0.429	0.472
<i>Chair<sub>Entrenchment</sub></i>	0.382	0.398	0.000	0.000	0.250	0.500	1.000
<i>Chair<sub>Tenure</sub></i>	0.647	0.483	0.000	0.000	1.000	1.000	1.000
<i>Enviroment</i>	10.195	0.168	9.963	10.064	10.234	10.300	10.333
<i>Size</i>	18.934	1.655	17.357	17.999	18.866	19.825	20.981
<i>Profitability</i>	0.042	0.026	0.014	0.027	0.040	0.053	0.071

*Variables:* *Control* = project development activities score; *Priorities* = project funding priorities score; *BoardCapital* = normalized sum of: board profile (number of different competencies) and potential network (board size); *BoardProcess* = normalized mean among characteristics and practices related to corporate governance; *CEO<sub>Entrenchment</sub>* = mean between a dummy variable that indicates if there is a general manager and the degree of devolving power to the CEO; *CEO<sub>Tenure</sub>* = is a dummy variable equal to 1 if the CEO is in charge for more than 1 term; *Enviroment* = natural logarithm of the province per capita Gross Domestic Product in 2009; *Size* = natural logarithm of the equity in 2009; *Profitability* = net income / equity ratio in 2009.



## PANEL B – Mean value for each philanthropic strategies

Variable	Expressive	Receptive	Pro-active	Collabo- rative	Kruskal- Wallis test (p- value)
<i>Number of FOBs</i>	13	11	14	13	-
<i>Grant (million €)</i>	14.721	15.988	29.176	8.818	0.275
<i>Equity (million €)</i>	592.924	751.532	1038.094	283.737	0.184
<i>Profitability</i>	4.90%	4.41%	3.93%	3.66%	0.809
<i>GDP per-capital (€)</i>	29592	28528	26408	24252	0.016**
<i>BoardCapital</i>	0.626	0.807	0.972	0.836	0.059*
<i>BoardProcess</i>	0.329	0.360	0.354	0.389	0.400
<i>Chair<sub>Entrenchment</sub></i>	0.365	0.409	0.357	0.404	0.975
<i>Chair<sub>Tenure</sub></i>	0.692	0.636	0.500	0.769	0.522

Significance levels: \*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$

*Variables:* *Grant (million €)* = amount of grants in 2009; *Equity (million €)* = Equity in 2009; *Profitability* = net income / equity ratio in 2009; *GDP per-capital (€)* = province per capita Gross Domestic Product in 2009; *BoardCapital* = normalized sum of: board profile (number of different competencies) and potential network (board size); *BoardProcess* = normalized mean among characteristics and practices related to corporate governance; *CEO<sub>Entrenchment</sub>* = mean between a dummy variable that indicates if there is a general manager and the degree of devolving power to the CEO; *CEO<sub>Tenure</sub>* = is a dummy variable equal to 1 if the CEO is in charge for more than 1 term.

### Univariate analysis

To provide an initial assessment of our hypothesis, in Table 2, Pearson correlations are reported. While board capital is positively related with philanthropic strategy, governance processes and chairman power seems to be unrelated with philanthropic strategy.

Moreover, Table 2 shows a statistically significant and negative correlation between philanthropic strategy and the log of per capita GDP. These results may appear as counterintuitive; however, we may infer that, in the presence of poor industrial and nonprofit environment, foundations start to adopt more proactive or collaborative philanthropic strategies in order to compensate for such scarcity.

It is worth notice that both *Size* and *Profitability* do not statistically correlate with philanthropic strategy.

In addition, Spearman's rank correlation coefficients and Kendall's rank correlation coefficients are similar to those reported in Table 2.

**Tab 2 - Pearson Correlations**

	<i>PS</i>	<i>Size</i>	<i>Profitability</i>	<i>Enviroment</i>	<i>BoardCapital</i>	<i>BoardProcess</i>	<i>CEO<sub>Entrenchment</sub></i>
<i>PS</i>	1.0000						
<i>Size</i>	0.1698	1.0000					
<i>Profitability</i>	-0.1878	-0.2561*	1.0000				
<i>Enviroment</i>	-0.4943***	0.2612*	0.0626	1.0000			
<i>BoardCapital</i>	0.2887**	0.4692***	-0.0454	0.1908	1.0000		
<i>BoardProcess</i>	0.2141	0.3952**	-0.1856	0.0214	0.0545	1.0000	
<i>Chair<sub>Entrenchment</sub></i>	0.0188	0.1243	-0.3714**	0.0396	-0.0522	0.0903	1.0000
<i>Chair<sub>Tenure</sub></i>	0.0193	-0.1956	0.0176	0.1460	0.0011	-0.3377**	-0.2986**

Significance levels: \* p<0.10, \*\* p<0.05, \*\*\* p<0.01

*Variables:* *PS* = Philanthropic strategy; [0] expressive, [1] receptive, [2] proactive and [3] collaborative; *Size* = natural logarithm of the equity in 2009; *Profitability* = net income / equity ratio in 2009; *Enviroment* = natural logarithm of the province per capita Gross Domestic Product in 2009; *BoardCapital* = normalized sum of: board profile (number of different competencies) and potential network (board size); *BoardProcess* = normalized mean among characteristics and practices related to corporate governance; *Chairman<sub>Entrenchment</sub>* = mean between a dummy variable that indicates the absence of a general manager and the degree of devolving power to the Chairman; *Chairman<sub>Tenure</sub>* = is a dummy variable equal to 1 if the Chairman is in charge for more than 1 term.

## Multivariate analysis

In order to test our hypotheses, we implement ordered logit models, and in Table 3 main results are reported. As can be seen, controlling for different aspects, it seems that board capital, governance processes and chairman power have a role in determining the philanthropic strategy adopted.

Specially, *BoardCapital* and *BoardProcess* are significantly positively associated with proactive and collaborative strategies. Therefore, *Hyp1* and *Hyp2* can be accepted. In other words, diversified knowledge in board members and expanded networks seems to induce FOBs to finance and monitor more complex and autonomous projects.

Also, chairman power seems to be related to the philanthropic strategy implemented and, consequently, *Hyp3* is confirmed as well. Although *Chairman<sub>Entrenchment</sub>* is not statistically associated with the philanthropic strategy, *Chairman<sub>Tenure</sub>* is positively associated with philanthropic strategy. In other words, it seems that chairmen with long tenure were able to develop a more collaborative approach. These results are in line with Hambrick and Fukutomi (1991) and Miller *et al.* (1982), who find that chairman power grows with tenure in the position and that business leaders' personalities and preferences have a greater role in strategic decision making as their tenures increase, respectively.

**Tab 3 – Multi-ordered logit models**

	(1) PS	(2) PS	(3) PS	(4) PS
<i>Enviroment</i>	-11.3*** (-4.79)	-11.5*** (-4.94)	-11.8*** (-5.00)	-11.8*** (-5.04)
<i>BoardCapital</i>	3.75*** (4.22)	3.48*** (3.46)	4.02*** (3.81)	3.93*** (3.13)
<i>BoardProcess</i>	7.88** (2.14)	6.99* (1.71)	7.23* (1.91)	7.03* (1.67)
<i>Chair<sub>Entrenchment</sub></i>	0.659 (1.05)	0.594 (0.89)	0.2 (0.26)	.202 (0.26)
<i>Chair<sub>Tenure</sub></i>	1.41** (2.27)	1.41** (2.24)	1.48** (2.33)	1.47** (2.24)
<i>Size</i>		0.133 (0.60)		0.0329 (0.14)
<i>Profitability</i>			-22 (-1.22)	-21.1 (-1.09)
cut1	-110*** (-4.75)	-110*** (-4.79)	-116*** (-4.99)	-116*** (-4.92)
cut2	-108*** (-4.75)	-108*** (-4.79)	-114*** (-4.99)	-114*** (-4.92)
cut3	-107*** (-4.70)	-106*** (-4.74)	-112*** (-4.94)	-112*** (-4.88)
Significance of the model	0.0000047	0.0000068	0.000032	0.000053
Pseudo - R <sup>2</sup>	0.25	0.25	0.26	0.26
Foundations	51	51	51	51

Robust Standard Errors

t-statistics in brackets

significance of coefficients: \*p&lt;0.10,\*\*p&lt;0.05,\*\*\*p&lt;0.01

*Variables:* PS = Philanthropic strategy: [0] expressive, [1] receptive, [2] proactive and [3] collaborative; *Enviroment* = natural logarithm of the province per capita Gross Domestic Product in 2009; *BoardCapital* = normalized sum of: board profile (number of different competencies) and potential

network (board size); *BoardProcess* = normalized mean among characteristics and practices related to corporate governance; *Chairman<sub>Entrenchment</sub>* = mean between a dummy variable that indicates the absence of a general manager and the degree of devolving power to the Chairman; *Chairman<sub>Termure</sub>* = is a dummy variable equal to 1 if the Chairman is in charge for more than 1 term; *Size* = natural logarithm of the equity in 2009; *Profitability* = net income / equity ratio in 2009.

It is worth notice that multivariate analysis also confirmed the importance of the role of the environmental situation. Moreover, as reported in models (2), (3) and (4), the foundation's size and profitability seem to have no relation to the philanthropic strategy adopted. Although appropriate tests do not reveal multicollinearity problems, such results may be due to the fact that *Size* is strongly and negatively related with *BoardCapital*, while *Profitability* is strongly and negatively related with *Chairman<sub>Entrenchment</sub>*.

### Robustness analysis

Since the sample size is quite small, we implement different models. Table 4 reports the regression coefficient implementing a ordinary least-squares model, ordered probit, ordered logit model with bootstrap standard errors and ordered probit with bootstrap standard errors in columns (1), (2), (3) and (4), respectively. Since results reported in columns (1), (2), (3) and (4) are in line with those reported in column (1) in Table 3, we can support our hypotheses that board

capital, governance process and CEO power are related to *philanthropy strategy*.

**Tab 4 – Robustness checks**

	(1)	(2)	(3)	(4)
<i>Model</i>	<i>OLS</i>	<i>Ordered probit</i>	<i>Ordered logit</i>	<i>Ordered probit</i>
	PS	PS	PS	PS
<i>Enviroment</i>	-4.15*** (-6.52)	-6.73*** (-5.47)	-11.3** (-2.52)	-6.73*** (-5.02)
<i>BoardCapital</i>	1.472*** (4.41)	2.29*** (4.35)	3.75*** (2.83)	2.29*** (3.24)
<i>BoardProcess</i>	3.345** (2.72)	4.55** (2.46)	7.88 (1.21)	4.55** (2.04)
<i>Chair<sub>Entrenchment</sub></i>	.311 (1.15)	.381 (1.01)	.659 (0.72)	.381 (0.78)
<i>Chair<sub>Tenure</sub></i>	.551** (2.11)	.868** (2.43)	1.41* (1.96)	.868** (2.15)
Constant	41.0*** 6.47			
cut1		-65.5*** (-5.42)	-110** (-2.50)	-65.5*** (-4.84)
cut2		-64.5*** (-5.37)	-108** (-2.47)	-64.5*** (-4.82)
cut3		-63.4*** (-5.31)	-107** (-2.44)	-63.4*** (-4.76)
Significance of the model	0.0000000223	0.0000068	0.000032	0.000053
R <sup>2</sup>	0.48			
Pseudo-R <sup>2</sup>		0.25	0.26	0.26
Foundations	51	51	51	51
Robust Standard Errors				
t-statistics in brackets				
Significance of coefficients: *p<0.10, **p<0.05, ***p<0.01				

*Variables:* *PS* = Philanthropic strategy: [0] expressive, [1] receptive, [2] proactive and [3] collaborative; *Environment* = natural logarithm of the province per capita Gross Domestic Product in 2009; *BoardCapital* = normalized sum of: board profile (number of different competencies) and potential network (board size); *BoardProcess* = normalized mean among characteristics and practices related to corporate governance; *Chairman<sub>Entrenchment</sub>* = mean between a dummy variable that indicates the absence of a general manager and the degree of devolving power to the Chairman; *Chairman<sub>Tenure</sub>* = is a dummy variable equal to 1 if the Chairman is in charge for more than 1 term; *Size* = natural logarithm of the equity in 2009; *Profitability* = net income / equity ratio in 2009.

### Additional analysis

Recent news has shown the link between chairman and politicians; therefore we investigate deeper for potential connection with politics (*Political<sub>Connection</sub>*). In particular, *Political<sub>Connection</sub>* assumes the value of 1 if at least one of the board member has political competences<sup>2</sup>. Moreover, we interact *Political<sub>Connection</sub>* with *Chairman<sub>Entrenchment</sub>* and *Chairman<sub>Tenure</sub>*. Results respect our research variables reported in Table 5 are in line with previous findings; nevertheless, the interaction between *Political<sub>Connection</sub>* and *Chairman<sub>Entrenchment</sub>* highlights potential connection with politics reduces the adoption of more evolved philanthropic strategies.

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<sup>2</sup> Untabulated results show that in 43% of the boards there is at least one member with political competences.



**Tab 5 – Additional analysis**

<i>Model</i>	(1) <i>Ordered probit</i> PS	(2) <i>Ordered probit</i> PS	(3) <i>Ordered probit</i> PS	(4) <i>Ordered probit</i> PS
<i>Enviroment</i>	-11.3*** (-4.79)	-11.6*** (-4.53)	-11.3*** (-4.76)	-11.8*** (-4.55)
<i>BoardCapital</i>	3.8*** (4.21)	4.05*** (4.16)	3.8*** (4.22)	4.14*** (4.18)
<i>BoardProcess</i>	7.67** (2.02)	8.03** (2.12)	7.69** (2.00)	8.23** (2.16)
<i>Chair<sub>Entrenchment</sub></i>	.648 (1.06)	1.89* (1.81)	.674 (1.02)	2.28* (1.95)
<i>Chair<sub>Tenure</sub></i>	1.37** (2.03)	1.59** (2.08)	1.5 (1.45)	2.22* (1.81)
<i>Political<sub>Connection</sub></i>	-.119 (-0.19)	.721 (0.77)	.0201 (0.02)	1.52 (1.20)
<i>Political<sub>Connection</sub> *Entrenchment</i>		-2.07* (-1.69)		-2.55** (-1.97)
<i>Political<sub>Connection</sub> * Tenure</i>			-.229 (-0.19)	-1.01 (-0.74)
cut1	-110*** (-4.80)	-112*** (-4.53)	-110*** (-4.79)	-113*** (-4.55)
cut2	-108*** (-4.76)	-110*** (-4.48)	-108*** (-4.75)	-111*** (-4.50)
cut3	-106*** (-4.71)	-108*** (-4.43)	-106*** (-4.70)	-109*** (-4.45)
Significance of the model	0.0000082	0.000012	0.000020	0.000028
Pseudo-R <sup>2</sup>	0.25	0.26	0.25	0.27
Foundations	51	51	51	51
Robust Standard Errors				
t-statistics in brackets				
Significance of coefficients: *p<0.10, **p<0.05, ***p<0.01				

*Variables:*  $PS$  = Philanthropic strategy: [0] expressive, [1] receptive, [2] proactive and [3] collaborative;  $Environment$  = natural logarithm of the province per capita Gross Domestic Product in 2009;  $BoardCapital$  = normalized sum of: board profile (number of different competencies) and potential network (board size);  $BoardProcess$  = normalized mean among characteristics and practices related to corporate governance;  $Chairman_{Entrenchment}$  = mean between a dummy variable that indicates the absence of a general manager and the degree of devolving power to the Chairman;  $Chairman_{Tenure}$  = is a dummy variable equal to 1 if the Chairman is in charge for more than 1 term;  $Political_{Connection}$  = Presence of political competencies in the board.  $Political_{Connection} * Entrenchment = Political_{Connection} * Chairman_{Entrenchment}$ ;  $Political_{Connection} * Tenure = Political_{Connection} * Chairman_{Tenure}$ .

## 5. Conclusions

Thanks to their large financial resources, FOBs are charged with successfully playing the unique role of social merchant banks by financing meritorious social projects (Monteduro *et al.*, 2010; Porter and Kramer, 1999). An accurate screening of FOBs' partners and an effective monitoring of the projects, furthermore, are expected to foster the positive impact of nonprofit organizations on societies, people and issues affected by their social activities (CEP, 2000). This paper shows how, in order to achieve such results, FOBs: [1] implement different strategic models and [2] support different strategic models with diverse governance practices. As far as strategic models are di-

verse, it is possible to group FOBs based on project funding priorities and project development activities. As a result of the intersections of these two dimensions, foundations adopt one of the following philanthropic models: expressive, receptive, proactive and collaborative. We assume that cooperative philanthropy is more challenging but, as well, is likely to have a greater social impact on the local community because of its ability to coordinate larger or more complex projects and/or to better screen and support the local partners for small and medium projects.

Regarding governance practices, FOBs are more likely to adopt a more comprehensive and cooperative philanthropic strategy if they improve board capital, implement effective governance processes and rely on chairman power. To show this, we studied whether effective governance is associated with shaping the different foundations' philanthropic models. In particular, we investigated the relationships between philanthropic strategy (expressive, receptive, proactive and collaborative), board capital, chairman characteristics (entrenchment and tenure) and board processes (planning and control mechanisms and systems, information collection and usage, members evaluation and timing).

Using the data from a questionnaire filled by 51 FOBs, we supported the hypotheses that higher board capital (*Hyp1*), better governance processes (*Hyp2*) and sensible chairman power (*Hyp3*) – chairman tenure in particular – are all significantly related to proactive and

collaborative strategic models. In addition, we find that FOBs settled and operating in wealthy provinces are more likely to adopt expressive and receptive models (probably because of strong external pressures from numerous nonprofit organizations seeking for funding).

Overall, our study empirically supports the previous literature showing that governance plays a major role in explain philanthropic strategy, even in a unique context such as the Italian one. In particular, this paper highlights three main findings. First, challenge of philanthropic strategy is not achieved without diversified competencies and sound knowledge of the board. Second, evolved philanthropic approaches need more sophisticated governance processes. Third, enhanced philanthropic strategies need a strong and stable business leader. This last result is likely to be due to the specific Italian context in which the chairman often plays the role typically played by the founders (family or company) of nonprofit foundations. Obviously, such a role and power could be interpreted differently among chairmen (more strategically or more politically), but on average, it led to a more sophisticated strategy. This strong leadership has often been criticized in the past; this study, however, shows its positive contribution, especially if matched with sound governance mechanism and high board capital.

Some methodological limits arise and qualify this study as exploratory in nature. First, the sample is limited as well as is the universe of the 88 Italian FOBs. Second, the chairman's perception could be bet-

ter analyzed if confirmed by archival data on the actual governance procedure. Third, the potential endogeneity between philanthropic strategy (our dependent) and governance (our independent) is difficult to treat because of the absence of instrumental variables. Future research may mitigate endogeneity through the replication of the questionnaire or implementing case studies analyzing also the performance of financed projects. The contribution, however, still remains the first empirical analysis on Italian FOBs' governance.

The results of this paper, indeed, contribute to a better understanding of the governance of nonprofit organizations and the relationship between governance and philanthropic strategy by showing how sound governance drives more proactive and collaborative strategies, both in small and large FOBs. On the opposite side, governance models characterized by low board capital, low chairman power and less stress on managerial processes (which are often the measurable outcome of governance model driven by political decisions) are more likely to generate reactive philanthropic strategies, such as expressive and receptive models.

The findings of this paper can be interesting and useful both for regulators interested in improving governance guidelines and board members active in the FOBs' strategic planning.

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